

May 22, 2009

final report

Ms. Janette Lopez  
Chief Deputy Director  
California Managed Risk Medical Insurance Board  
1000 G Street, Suite 450  
Sacramento, CA 95814

**RE: EVALUATION OF SAN FRANCISCO HEALTH PLAN MEDICAL LOSS RATIO  
SUBMISSION**

Dear Ms. Lopez:

The Department of Managed Health Care (DMHC) hereby provides the Managed Risk Medical Insurance Board (MRMIB), Healthy Families Program (HFP) with the following report regarding the evaluation of San Francisco Health Plan (SFHP) HFP medical loss ratio submission for the period July 1, 2007 through June 30, 2008. This report outlines the project objectives, methodology and results.

- I Objectives: The purpose of the loss ratio evaluation was to evaluate the underlying payments supporting the amount reported as benefits provided to HFP subscribers and reported by SFHP.

As part of this evaluation, DMHC performed the following:

- A Determined whether 100% of the children who received services paid by SFHP were enrolled in the HFP at the time the services or capitated coverage were provided
- B Summarized the total capitation and benefit payments within the detailed data provided by SFHP and compared the total payments to the amount reported on Schedule 6 submitted by SFHP
- C Summarized the total payments made by SFHP for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by SFHP on Schedule 6.

To achieve the objectives outlined above, DMHC performed data analysis on information provided by MRMIB and SFHP and corresponded with management personnel at SFHP. The primary contacts at SFHP were Eryn Kantor, Interim CFO. The methodology and results for each of the objectives are described on the following pages.

## II Methodology

### A Determined whether 100% of the children who received services paid by SFHP were enrolled in the HFP at the time the services were provided.

- 1 DMHC obtained electronic files containing encounter data (claims payment) for all services provided for the HFP (Inpatient, Outpatient, Pharmacy, etc ...) for the period of July 1, 2007 through June 30, 2008. Additionally, the Department obtained electronic files from MRMIB of all children eligible for services as a SFHP subscriber during the period of July 1, 2007 through June 30, 2008.
- 2 Using the two files, DMHC compared the Client Index Number (CIN) and Date of Service on SFHP's files to determine if there were any payments made by SFHP for subscribers that were not eligible for benefits according to the eligibility file received from MRMIB. The data analysis disclosed that the Plan's data has an insignificant variance to MRMIB's data. The amounts were not material and no further procedures were performed.

Table 1 – Medical Expenses for individuals that were not listed in the MRMIB file during the service period or not eligible at service date.

**Table 1**

Claims/Capitation Payments Category	Number of claims/services payments	Dollars (Footnote 1)	Percent Error to Total Category Data (\$ field)
Plan's Capitation, Fee-For-Service, and Pharmacy data total	94,826	\$5,031,937	100.000%
CIN matches but mismatch on month of eligibility	82	\$1,682	0.033%
No CIN matches in SFHP's database	25	\$109	0.002%
Total	107	\$1,791	0.036%

*Footnote 1: This analysis represents payments made by the Plan to their contracted providers and not payments made by MRMIB to the Plans.*

**B Summarized the total benefit payments within the detailed data provided by SFHP and compared the total payments to the amount reported on Schedule 6 submitted by SFHP.**

Using the electronic files and paper documentation received from SFHP in Section II above, and SFHP's Schedule 6 loss ratio submission provided by MRMIB, DMHC compared the total of the payments on the electronic files and paper documentation to the data reported on Schedule 6. Please see Summary of Findings for adjustments.

**Table 2**

<b>Description</b>	<b>Sch 6</b>	<b>Plan Data</b>	<b>Difference</b>	<b>Percent Error</b>
Inpatient Services - Capitated	\$1,131,337	\$1,131,337	\$0	0.00%
Inpatient Services - Per Diem	\$39,395	\$39,395	\$0	0.00%
Inpatient Services - Fee for Service/Case Rate	\$42,545	\$127,512	\$84,967	199.71%
Primary Professional Services - Capitated	\$2,583,387	\$2,583,387	\$0	0.00%
Primary Professional Services - Noncapitated	\$72,748	\$143,002	\$70,254	96.57%
Other Medical Professional Services - Capitated	\$330,948	\$330,948	\$0	0.00%
Other Medical Professional Services - Noncapitated	\$376	\$376	\$0	0.00%
Pharmacy Expense	\$703,994	\$703,994	\$0	0.00%
Other Medical Expense	\$136,103	\$136,103	\$0	0.00%
Aggregate Write-ins for Other Medical and Hospital Expense	\$239,025	\$15,844	(\$223,181)	(93.37%)
Total	\$5,279,858	\$5,211,898	(\$67,960)	(1.29%)

C Summarized the total payments made by SFHP for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by SFHP on Schedule 6.

**Table 3**

Detailed reconciliation of detailed data files to Schedule 6

	CATEGORY	REPORTED ON SCHEDULE 6	BALANCE PER DMHC REVIEW	VARIANCE OVER / (UNDER)
	Subscriber Months	73,378	73,378	0
1	Premium Payments from State	\$6,106,778	\$6,106,778	\$0
	<b>Affiliated Entities and Nonaffiliated Entities</b>			
2	Incentive Payments to Affiliated Parties			\$0
3	Incentive Payments to Nonaffiliated Parties	\$223,181	\$0	(\$223,181)
4	Total Incentive Payments	\$223,181	\$0	(\$223,181)
	<b>Expenses</b>			
	<b>Medical and Hospital</b>			
5	Inpatient Services - Capitated	\$1,131,337	\$1,131,337	\$0
6	Inpatient Services - Per Diem	\$39,395	\$39,395	\$0
7	Inpatient Services - Fee for Service/Case Rate	\$42,545	\$127,512	\$84,967
8	Primary Professional Services - Capitated	\$2,583,387	\$2,583,387	\$0
9	Primary Professional Services - Noncapitated	\$72,748	\$143,002	\$70,254
10	Other Medical Professional Services - Capitated	\$330,948	\$330,948	\$0
11	Other Medical Professional Services - Noncapitated	\$376	\$376	\$0
12	Noncontracted Emerg Room and Out-of-Area Exp, not incl POS	\$0	\$0	\$0
13	POS Out-of-Network Expense	\$0	\$0	\$0
14	Pharmacy Expense	\$703,994	\$703,994	\$0
15	Other Medical Expense	\$136,103	\$136,103	\$0
16	Aggregate Write-ins for Other Medical and Hospital Expense	\$239,025	\$15,844	(\$223,181)
17	Total Medical and Hospital (lines 5 to line 16)	\$5,279,858	\$5,211,898	(\$67,960)
A	<b>Gross Profit</b>	<b>\$826,920</b>	<b>\$894,880</b>	
B	<b>MEDICAL LOSS RATIO</b>	<b>86.46%</b>	<b>85.35%</b>	

### III Summary of Findings

- A Under reported Inpatient Service – Fee for Service/Case Rate by \$84,967.
- B Under reported Primary Professional Services – Noncapitated by \$70,254.
- C Disallowed \$223,181 Incentive Payments to Nonaffiliated Parties. A review of SFHP's incentive payments to nonaffiliated parties for 2007-2008 reporting period revealed that SFHP had insufficient evidence in the form of verifiable documentation supporting a promise was made to pay. After several attempts, SFHP did not provide any verifiable documentation such as the Board minutes approving and directing the incentive payment and/or provider contract disclosing the incentive program.


### IV Limitations

This analysis and report were prepared solely for the purpose of assisting MRMIB in the determination of the accuracy of payments made by SFHP on their Schedule 6 Medical Loss Ratio Report. We have not performed an evaluation of the Company's internal controls within the guidelines set forth by the AICPA but have reported to you based upon the procedures performed. Our analysis has not been a detailed examination of all transactions, and cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations that may exist.

Please feel free to call Evan Lo, DMHC Examiner, with any questions pertaining to this report.

Sincerely,

  
Evan Lo  
Examiner  
Division of Financial Oversight

  
Stephen Babich  
Supervising Examiner  
Division of Financial Oversight

cc: Deborah Simmons, Federal Compliance Unit Manager, MRMIB  
Mark Wright, Chief Examiner, DMHC  
Stephen Babich, Supervising Examiner, DMHC